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Indian Economy

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Microeconomics

SUPPLY

DEMAND

An illustration showing two hands shaking in a firm grip. The palm of the left hand is facing upwards and has the word 'SUPPLY' written on it. The palm of the right hand is facing downwards and has the word 'DEMAND' written on it. The hands are rendered in a sketchy, hatched style.

POVERTY, INEQUALITY & INCLUSIVE GROWTH

11.1 Introduction

Poverty can be defined as a social phenomenon in which a section of society is unable to fulfill even its basic necessities of life. *UNDP defines poverty as denial of choices and opportunities for living a tolerable life. Poverty entails more than the lack of income and productive resources to ensure sustainable livelihoods.* Its manifestations include hunger and malnutrition, limited access to education and other basic services, social discrimination and exclusion as well as the lack of participation in decision-making. High poverty levels are synonymous with poor quality of life, deprivation, malnutrition, illiteracy and low human resource development.

11.1.1 Multidimensional Poverty

Defining poverty in terms of monetary terms or measuring poverty as just fulfilling the basic requirement of food, cloth and home is a narrower view to define poverty.

Multidimensional poverty is made up of several factors that go beyond lack of income and constitute deprivation such as poor health, lack of education, inadequate living standard, lack of income, poor quality of work etc. A multidimensional measure can incorporate a range of indicators to capture the complexity of poverty. Different indicators can then be chosen appropriate to the society and situation.

11.1.2 Multidimensional Poverty Index

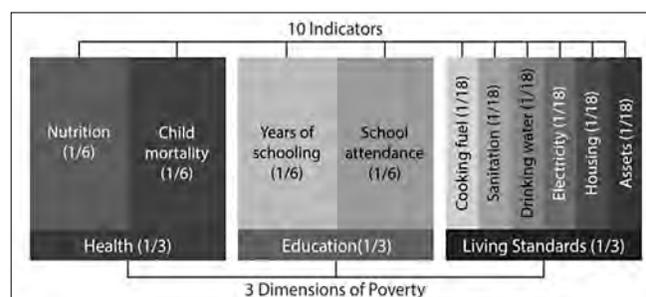
The United Nations Development Programme (UNDP) uses a Multidimensional Poverty Index to measure multidimensional poverty. MPI is based on the idea that poverty is *not unidimensional* (not just depends on income and one individual may lack several basic needs like education, health etc.), rather it is multidimensional. The MPI can help in better assessment of the poverty scenario and subsequently can aid in the effective allocation of resources by making possible the targeting of those factors having greater correlation with poverty.

- It can help address some Sustainable Development Goals (SDGs) strategically and monitor impacts of policy intervention.
- The MPI can be adapted at the national level by any nation using indicators and weights that make sense for any of its region or the country as whole.
- It can also be adopted for national poverty eradication programs, and can be used to study changes over time.
- Multidimensional poverty index complements monetary measures of poverty with information on *overlapping deprivations experienced simultaneously* by individuals. It identifies deprivations in the same three dimensions (having ten indicators) as the Human Development Index.
 - ♦ **Education:** Years of schooling and child enrollment (1/6 weightage each, total 2/6);

- ♦ **Health:** Child mortality and nutrition (1/6 weightage each, total 2/6);
- ♦ **Standard of Living:** Electricity, flooring, drinking water, sanitation, cooking fuel and assets (1/18 weightage each, total 2/6).

A person is multidimensionally poor if she/he is deprived in *one third or more* (means 33% or more) of the weighted indicators (out of the ten indicators). Those who are deprived *in one half or more* of the weighted indicators are considered living in extreme multidimensional poverty.

MPI is significant as it recognizes poverty from different dimensions compared to the conventional methodology that measures poverty only from the income or monetary terms.

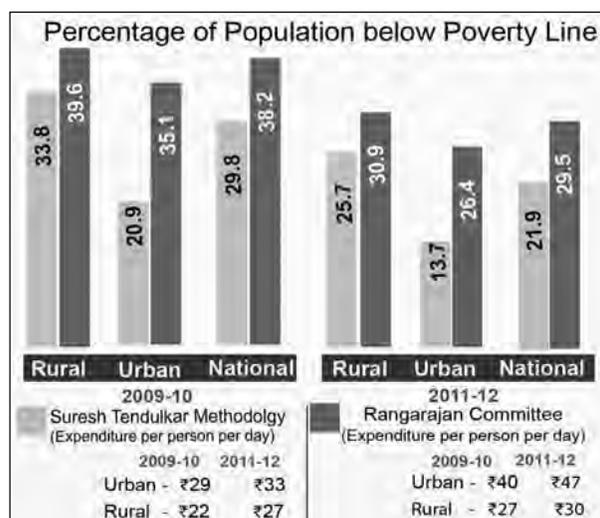


Global Multidimensional Poverty Index 2023

Recently, *Global Multidimensional Poverty Index 2023* was released by the *United Nations Development Programme (UNDP)* and the *Oxford Poverty & Human Development Initiative (OPHI)*. The Index considers data from *110 countries and 6.1 billion people*.

- ♦ **Global Data:**
 - 1.1 billion people are *multidimensionally poor*. About half (566 million) are children *under age 18*.
 - Nearly **84% live in Sub-Saharan Africa** (534 million) or **South Asia** (589 million).
- ♦ **Absolute Reduction in Poverty:**
 - Some countries saw the fastest *absolute reductions* in their poorest regions-helping to fulfil their pledge to leave no one behind.
- ♦ **Poverty Across Ethnic and Racial groups:**
 - In some cases, *disparities in multidimensional poverty across ethnic and racial groups are greater* than disparities across geographical subnational regions.
 - Within a country, *multidimensional poverty among different ethnic groups can vary immensely*.
- ♦ **Education:**
 - Worldwide about *two-thirds* of multi-dimensionally poor people live in households where *no woman or girl completed at least six years of schooling*. One-sixth of all multidimensionally poor people live in households in which at least one boy or man has completed six or more years of schooling but *no girl or woman has*.
 - The report also finds that *women and girls living in multidimensional poverty are at higher risk of intimate partner violence*.

- ◆ **Living Standard:**
 - 1 billion are exposed to solid cooking fuels, another billion live with *inadequate sanitation* and another billion have *substandard housing*.
 - 788 million live in a household with at least one *undernourished person*.
 - 568 million lack improved *drinking water* within a 30-minute round trip walk.
- ◆ **Indian Scenario:**
 - As *castes and tribes are a more prevalent line of social stratification in India*, this index presents the incidence and intensity of multidimensional poverty among castes and tribes and among individuals who are not members of any caste or tribe.
 - In India *five out of six multidimensionally poor people are from lower tribes or castes*.
 - **9.4%** of the *Scheduled Tribe* group lives in multidimensional poverty.
 - **33.3%** of the *Scheduled Caste* group lives in multidimensional poverty.
 - **27.2%** of the *Other Backward Class* group lives in multidimensional poverty.



11.2 Types of Poverty

There are two main classification of Poverty

A. Absolute Poverty

In 1995, the United Nations defined Absolute poverty as a condition characterised by *severe deprivation* of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information.

It is a condition where household income is below a necessary level to maintain basic living standards (food, shelter, housing). This condition makes it possible to compare between different countries and also over time.

It was first introduced in 1990, the *“dollar a day”* poverty line measured absolute poverty by the standards of the world’s poorest countries. In *October 2015, the World Bank reset it to \$1.90 a day*.

Economist Amartya Sen has defined absolute poverty as a failure to achieve certain minimum capabilities.

Methodologies to Calculate Absolute Poverty

Several methodologies are used to calculate the absolute poverty. Some of them are as follows:

- 1. Poverty Line:** Poverty line is the level of income to meet the minimum living conditions. Poverty line represents the amount of money needed for a person to meet his basic needs. Poverty line, its methodology and dimensions changes from one country to another.
- 2. Poverty Gap:** Poverty gap is defined as the ratio of average per capita consumption of poor to poverty line. Poverty gap measures the intensity of poverty. It shows the extent to which individuals on average fall below the poverty line.
 - ◆ This measure reflects the depth of poverty (severity) as well as its incidence (expanse).

- ◆ The indicator is often described as measuring the per capita amount of resources needed to eliminate poverty. For example: In 2011–2012, the average per capita expenditure of the poor was ₹708 per person per month and the poverty line was ₹847.

With perfect targeting (that is, complete knowledge of who is poor and by how much), a transfer of ₹139 per person per month (or ₹1,668 a year) would enable the target of zero percent (Tendulkar poverty) to be reached.

- ◆ In India, poverty gap is relatively greater in rural areas than in urban areas. This would imply that measures for alleviation of poverty should be so designed that the focus of their benefit is rural people.

3. Poverty Gap Index: Poverty Gap Index estimates the depth of poverty by considering how far, on an average, the poor are from that poverty line. It enables poverty comparisons. It also helps provide an overall assessment of a region’s progress in poverty alleviation and the evaluation of specific public policies or private initiatives. However, Poverty gap index ignores the effect of inequality between the poor. It does not capture differences in the severity of poverty amongst the poor.

4. Poverty Ratio: According to OECD, the poverty rate is the ratio of the number of people (in a given age group) whose income falls below the poverty line; taken as half the median household income of the total population.

It is available by broad age group:

- ◆ Child poverty (0-17 years old),
- ◆ Working-age poverty,
- ◆ Elderly poverty (66 year-olds or more).

However, two countries with the same poverty rates may differ in terms of the relative income-level of the poor.

In the absolute standard, minimum physical quantities of cereals, pulses, milk, butter etc are determined for a subsistence level and then price is quoted in monetary terms of these physical quantities. This figure is known as *per capita expenditure*.

The population whose level of income or expenditure is below this figure is considered to be below poverty line.

B. Relative Poverty

- Relative poverty defines poverty in relation to the economic status of other members of the society. People are poor if they fall below prevailing standards of living in a given societal context. Hence it is a measure of income inequality.
- Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income.

Lorenz Curve and Gini Coefficient

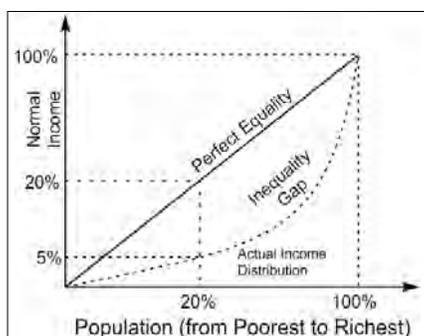
To measure relative poverty various methodology have been developed that uses different parameters to calculate the relative poverty. One of such parameters is 'income inequality' which is measured by the concept of Lorenz curve and Gini coefficient.

The distribution of income in an economy is represented by a Lorenz Curve and the degree of income inequality is measured through the Gini Coefficient.

1. Lorenz Curve

- The Lorenz Curve, developed by Max Lorenz in 1906, is a graphical distribution of wealth.
- It shows proportion of income earned by any given percentage of the population.
- The line at the 45° angle shows perfectly equal income distribution, while the other line shows the actual distribution of income. This means that the 45 degree line denotes that all people of the country earn equally and the other line which deviates from this 45 degree line shows the inequality in the earning of people.
- For example, if the actual income distribution coincides with the perfect equality line, it will mean that 10% of the people receive 10% of the total income.
- The deviation of line of actual distribution is directly linked to the inequality gap. In other words more the deviation from the perfect equality, more will be the inequality gap.

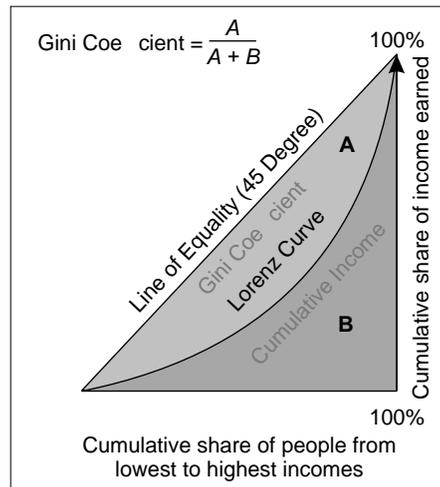
For example, the Lorenz Curve in the given diagram, which represents the actual distribution of income in a country, shows how the poorest 20% of the population only earn 5% of the national income in this population.



Lorenz curve

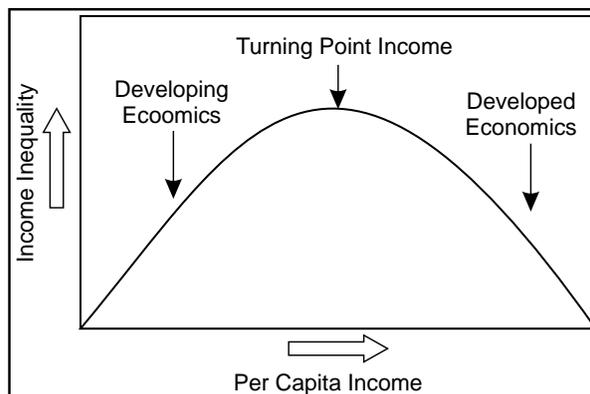
While in a case of perfect equality, the poorest 20% of the population would earn 20% of the income. The more bowed out a Lorenz Curve, the greater is the inequality of income in the country.

2. Gini Coefficient



- The Gini Coefficient is derived from the Lorenz Curve. Gini coefficient is the ratio of area between the Lorenz curve (Actual Distribution Line) and the line of absolute equality (Numerator) to the whole area under the line of absolute equality (Denominator).
- The Gini Coefficient measures the degree of income equality in a population.
- The Gini Coefficient can vary from 0 (perfect equality) to 1 (perfect inequality).
- More the Gini Coefficient, more the income inequality.

- #### 3. Kuznets Curve:
- The relationship between *growth* and *inequality of income* has been of considerable concern in the development literature. As development process proceeds, income inequality first rises and then falls with development. A graphical representation of increase in per capita income on the 'X' axis representing economic development and a measure of inequality on the 'Y' axis would show a curve in *the shape of an inverted 'U'*. This has come to be called as inverted-U hypothesis of the relationship between growth of income and inequality, and is associated with Simon Kuznets. It is now famously called as 'Kuznets Curve'.



Kuznets curve

11.3 Poverty Estimation in India

11.3.1 Pre-Independence

- One of the earliest estimations of poverty was done by Dadabhai Naoroji in his book, '*Poverty and the Un-British Rule in India*'. He formulated a poverty line ranging from ₹16 to ₹35 per capita per year, based on 1867-68 prices. The poverty line proposed by him was based on the cost of a subsistence diet consisting of 'rice or flour, dal, mutton, vegetables, ghee, vegetable oil and salt'.
- In 1938, the *National Planning Committee (NPC)* estimated a poverty line ranging from ₹15 to ₹20 per capita per month.
- In 1944, the authors of the '*Bombay Plan*' suggested a poverty line of ₹75 per capita per year.

11.3.2 Post-Independence

A. Planning Commission Expert Group

In 1962, the Planning Commission constituted a working group to estimate poverty nationally, and it formulated separate poverty lines for rural and urban areas – of ₹20 and ₹25 per capita per year respectively.

B. VM Dandekar and N Rath's Study

- They made the first systematic assessment of poverty in India in 1971, based on *National Sample Survey (NSS) data* from 1960-61.
- They argued that the poverty line must be derived from the expenditure that was adequate to *provide 2250 calories* per day in both rural and urban areas.
- This generated debate on *minimum calorie consumption norms* while estimating poverty and variations in these norms based on age and sex.

C. Alagh Committee (1979)

- In 1979, a task force constituted by the Planning Commission for the purpose of poverty estimation, chaired by YK Alagh, constructed a poverty line for rural and urban areas on the basis of *nutritional requirements*.
- Following table shows the nutritional requirements and related consumption expenditure based on 1973-74 price levels recommended by the task force. Poverty estimates for subsequent years were to be calculated by *adjusting the price level for inflation*.

Calorie Consumption and Consumption Expenditure		
Area	Calories	Mini. Consumption Expenditure (₹ Per Capita/Month)
Rural	2400	49.1
Urban	2100	56.7
As per the 1979 Planning Commission task force on poverty estimation		

D. Lakdawala Committee (1993)

In 1993, an expert group constituted to review methodology for poverty estimation, chaired by DT Lakdawala, made the following suggestions:

- Consumption expenditure should be calculated based on calorie consumption as earlier;
- State specific poverty lines should be constructed and these should be updated using the CPI-IW in urban areas and CPI-AL in rural areas.
- Discontinuation of scaling of poverty estimates based on National Accounts Statistics.

E. Tendulkar Committee (2009)

In 2005, another expert group to review methodology for poverty estimation, chaired by Suresh Tendulkar, was constituted by the Planning Commission to address the following three shortcomings of the previous methods:

- **Obsolete Consumption Patterns:** Consumption patterns were linked to the 1973-74 poverty line baskets (PLBs) of goods and services, whereas there were significant changes in the consumption patterns of the poor since that time, which were not reflected in the poverty estimates;
- **Inflation Adjustment:** There were issues with the adjustment of prices for inflation, both spatially (across regions) and temporally (across time); and
- **Health and Education Expenditure:** Earlier poverty lines assumed that health and education would be provided by the State and formulated poverty lines accordingly.

Recommendations

1. A Shift away from Calorie Consumption Based Poverty Estimation:

It based its calculations on the consumption of the following items: cereal, pulses, milk, edible oil, non-vegetarian items, vegetables, fresh fruits, dry fruits, sugar, salt and spices, other food, intoxicants, fuel, clothing, footwear, education, medical (non-institutional and institutional), entertainment, personal and toilet goods, other goods, other services and durables.

2. A Uniform Poverty Line Basket (PLB) across Rural and Urban India:

The Committee computed new poverty lines for rural and urban areas of each state. To do this, it used data on value and quantity consumed of the items mentioned above by the population who were classified as poor by the previous urban poverty line. It concluded that the all India poverty line was ₹446.68 per capita per month in rural areas and ₹578.80 per capita per month in urban areas in 2004-05. The following table outlines the manner in which the percentage of population below the poverty line changed after the application of the Tendulkar Committee's methodology.

Population below Poverty Line (2004-05)			
Committee	Rural	Urban	Total
Lakdawala Committee	28.3%	25.7%	27.5%
Tendulkar Committee	41.8%	27.5%	37.2%

3. A Change in the Price Adjustment Procedure to Correct Spatial and Temporal Issues with Price Adjustment:

The Committee also recommended a new method of updating poverty lines, adjusting for changes in prices and patterns of consumption, using

the consumption basket of people close to the poverty line. Thus, the estimates released in 2009-10 and 2011-12 use this method instead of using indices derived from the CPI-AL for rural areas and CPI-IW for urban areas as was done earlier.

Following Table outlines the poverty lines computed using the Tendulkar Committee methodology for the years 2004-05, 2009-10 and 2011-12.

National poverty lines (in ₹ Per capita/month)		
Year	Rural	Urban
2004-05	446.7	578.8
2009-10	672.8	859.6
2011-12	816.0	1000.0

4. Incorporation of Private Expenditure on health and education while estimating poverty.

5. Mixed Reference Period: The Committee recommended using Mixed Reference Period (MRP) based estimates, as opposed to Uniform Reference Period (URP) based estimates that were used in earlier methods for estimating poverty.

URP and MRP: A Comparison
<p>Until 1993-94, consumption information collected by the NSSO was based on the <i>Uniform Reference Period (URP)</i>. It was measured as consumption across a 30-day recall period. That is, survey respondents were asked about their consumption in the previous 30 days.</p> <p>From 1999-2000 onwards, the NSSO switched to a method known as the Mixed Reference Period (MRP). The MRP measures consumption of five low-frequency items (clothing, footwear, durables, education and institutional health expenditure) over the previous year, and all other items over the previous 30 days. That is to say, for the five items, survey respondents are asked about consumption in the previous one year. For the remaining items, they are asked about consumption in the previous 30 days.</p>

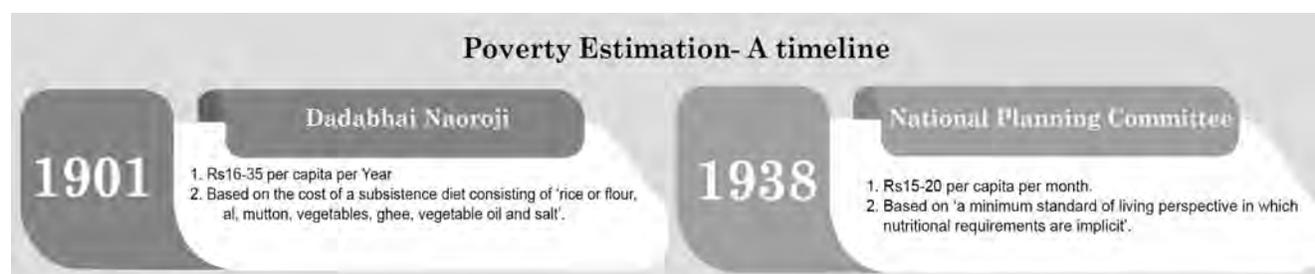
F. Rangarajan Committee

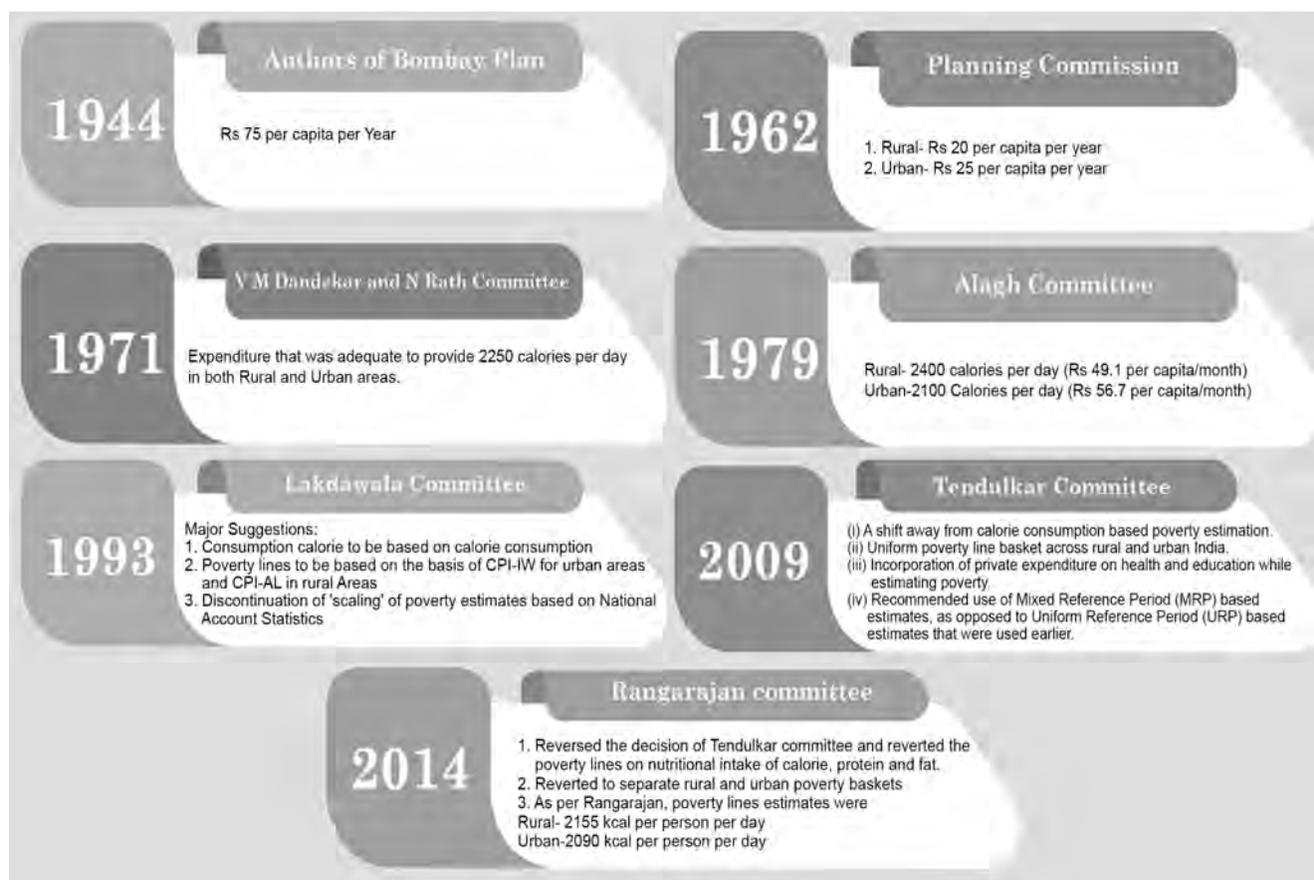
In 2012, the Planning Commission constituted a new expert panel on poverty estimation, chaired by C Rangarajan to review the methodology for measurement of poverty. It made the following changes:

• **Methodology Used:** Tendulkar committee had used the all-India urban poverty line basket as the reference to derive state-level rural and urban poverty. The Rangarajan committee reverts to the practice of having separate

rural and urban poverty basket lines. The Rangarajan committee estimation is based on an independent large survey of households by *Center for Monitoring Indian Economy (CMIE)*. It has also used different methodology wherein a household is considered poor if it is unable to save.

- **Normative and Behavioural Level:** The poverty line should be based on certain normative levels (Ideal and Desirable) of adequate nourishment, clothing, house rent, conveyance and education, and a behaviourally determined level of other non-food expenses.
- **Nutritional Requirement:** It reversed the decision of the Tendulkar Committee and anchored the poverty lines on nutritional intake of calorie, protein and fat.
 - ♦ **Calories:** 2090 kcal in urban areas and 2155 Kcal in rural areas.
 - ♦ **Protein:** For rural areas 48 gm and for urban areas 50 gm.
 - ♦ **Fat:** For urban areas 28 gm and for rural areas 26 gm.
- The energy requirement as calculated by Rangarajan is 2,155 kcal per person per day in rural areas and 2,090 kcal per person per day in urban areas. This is significantly lower than the 2,400 kcal in rural areas and slightly less than 2,100 kcal in urban areas used by the earlier Lakdawala panel. The reason given is that the age profile and working conditions have changed with time.
- **Poverty Threshold:** Persons spending below ₹47 a day in cities and ₹32 in villages be considered poor. Based on this methodology, Rangarajan committee estimated that the number of poor were 19% higher in rural areas and 41% more in urban areas than what was estimated using Tendulkar committee formula.
- **Modified Mixed reference period:** Instead of Mixed reference Period (MRP) it recommended Modified Mixed Reference Period (MMRP) in which reference periods for different items were taken as:
 - ♦ 365-days for clothing, footwear, education, institutional medical care, and durable goods.
 - ♦ 7-days for edible oil, egg, fish and meat, vegetables, fruits, spices, beverages, refreshments, processed food, pan, tobacco and intoxicants
 - ♦ 30-days for the remaining food items, fuel and light, miscellaneous goods and services including non-institutional medical; rents and taxes.





Poverty Estimates by Different Committees									
Year	Ladawala Committee Estimates			Tendulkar Committee Estimates			Rangarajan Committee Estimates		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
1993-94	37.3	32.4	36.0	50.1	31.0	45.3	-	-	-
2004-05	23.3	26.7	27.6	41.8	26.7	37.2	-	-	-
2009-10	-	-	-	33.7	20.9	29.8	39.6	35.1	38.2
2011-12	-	-	-	25.7	13.7	21.9	30.9	26.4	29.5

11.4 Causes of Poverty in India

In India, the debate on poverty issue was launched by *Dadabhai Naoroji*, through his famous *Drain Theory*, enunciated in his book 'Poverty and Unbritish Rule in India' which explained the major causes of poverty in India of that time. He was accompanied by many other nationalists like *M.G. Ranade*, *R.C.Dutt*, etc. However, after independence the situation has changed but many of the factors still remain prevalent like:

- **High Population Growth Rate:** With limited resources and high population, most people are left with lack of availability of resources leading to poverty.
- **Agrarian Form of Economy:** Agriculture offers less income which leads to poverty like situation.
- **Primitive Agricultural Practices:** Elementary agricultural activities are neither remunerative nor sustainable, as a result the condition of deprivation exists due to low agricultural productivity.
- **Illiteracy and Ignorance:** Absence or lack of ability to read write and comprehend, reduces the ability of any person to prosper and uplift himself from poverty.
- **Unemployment and Underemployment:** Unavailability of avenues to earn creates a mutually reinforcing cycle of poverty causing unemployment and unemployment causing poverty.
- **Urban-Rural Divide:** The availability of resources and means to posses those resources are more in urban areas than in rural areas, thus creating conditions of impoverishment in the rural areas.
- **Social Inequity and Discrimination:** Some of the hindrances in this regard are the laws of inheritance, caste system, certain traditions, etc.
- **Inadequate Accessibility of Food:** Food is a basic necessity of life. Inadequate accessibility to food leads to hunger and penury.

However, two major factors can be outlined which are the main causes of poverty:

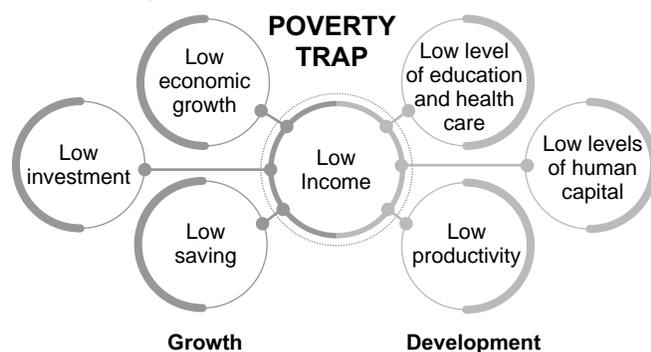
1. Inadequate Employment Opportunities: Unemployment implies *absence of a source of income* and hence it becomes a major cause of poverty. Creation of employment opportunities is, therefore, one of the ways of reducing the incidence of poverty.

In a labour-surplus over-populated country like India any fight against poverty could be successful only if growth of the economy brings about *new job opportunities*.

The rate of creation of new job opportunities has to be faster than the rate at which the labour force increases. Only then, it would not only be possible to provide jobs to the already unemployed but also to the new entrants in the labour market. Provision of jobs thus becomes an *antidote to poverty*.

2. Disparities in Income Distribution and Ownership of Assets: Inequalities in the distribution of income could be attributed by and large to the structure of asset ownership in the economy.

In the rural areas, land is the asset par excellence. There are sharp inequalities in the distribution of land ownership.



Reinforcement of these causes of poverty leads to poverty trap.

11.5 Poverty Alleviations in India Since Independence

The Government has adopted a three pronged strategy for reducing poverty comprising of:

1. Accelerated economic growth with a focus on sectors which are employment intensive.
2. Human and social development through provision of basic minimum services.
3. Targeted anti-poverty programmes.

While economic growth continues to be the prime factor for reducing the poverty, targeted anti-poverty programmes supplement the growth effort and protect the poor from destitution, sharp fluctuations in employment and incomes, and social insecurity.

11.5.1 Background: Poverty and Economic Planning

Every major policy and plan document has expressed a perspective and concern of poverty. The First Five Year Plan (1951-56) stated that “the central objective of planning in

India is to raise the **standard of living** of the people and provide **opportunities** for a richer and more varied life. Successive Five-Year Plans continued to emphasize poverty eradication, and the attainment of **economic equality** and **social justice** as key objectives. The Eighth Five Year Plan (1992-97) identified *human development* as the ultimate goal. It aimed to create jobs, contain population, eradicate illiteracy, universalise elementary education, and provide safe drinking water and primary health care facilities to all. This objective was further carried forward in all future five year plans.

11.5.2 Poverty Alleviation Programmes

Poverty alleviation programmes have been designed from time to time to enlarge the income-earning opportunities for the poor.

Phases of Poverty Alleviation in India		
Phase	Period	Underlying Approach
First	Beginning of 1950 till the end of 1960	The Major emphasis was on the redistribution of land and improving the plight of poor tenants, on the tenancy reforms to promote the principle of “land to Tiller” and on imposing ceilings of large holding of lands thereby helping poor and marginal farmers.
Second	Late 1960s to early 1990s	This phase included measures that were target-group oriented for the poor in rural areas with programs for backward region, development of small and marginal farmers etc. finally culminating in the Integrated Rural Development Programme and National Rural Development programme.
Third	1990 onwards	It emphasised on shifting measures aimed at accelerating economic growth and increasing the productivity through various schemes like MGNREGA and others.

Various important anti-poverty schemes are listed below.

A. Integrated Rural Development Program

Integrated Rural Development Programme (IRDP) was introduced 1978-79. It provided assistance to the rural poor in the form of *subsidy and bank credit* for productive employment opportunities.

- In 1999, the IRDP and allied programmes, including the Million Wells Scheme (MWS), were merged into a single programme known as Swarnajayanti Gram Swarozgar Yojana (SGSY).
- It was a holistic programme of *micro enterprise* development in rural areas with emphasis on organizing the rural poor into self-help groups, capacity-building, planning of activity clusters, infrastructure support, technology, credit and marketing linkages.

- It insisted that *women* must exclusively form 50 per cent of the self-help groups and that 50 per cent of the benefits should flow to SCs and STs.
- While the IRDP concentrated on individual beneficiaries, the SGSY laid greater emphasis on *social mobilisation* and *group formation*.

Analysis of IRDP

The program of IRDP had many areas of concern with its implementation. For example the authority responsible for its administration did not have requisite skills in social mobilisation. There were few linkages with the NGOs which could have facilitated this process.

B. National Rural Livelihood Mission

It was launched during 2009-10 to facilitate effective implementation of the restructured SGSY scheme in a mission mode. NRLM aims at reducing poverty in rural areas through promotion of diversified and gainful *self-employment* and *wage employment* opportunities. NRLM was strengthened in May, 2013. The key features of the restructured NRLM include:

- Mobilization of at least one *woman* member from each rural poor household in the country into *SHG* network in a phased manner;
- Special focus on the mobilization of women from the Scheduled Castes (SCs) and the Scheduled Tribes (STs), the Particularly Vulnerable Tribal Groups (PVTGs), the disabled and other vulnerable and *marginalized* household;
- Promotion of *SHG federations* at village and cluster levels—Village Level Self Help Group Federations (VLF) at village level and Cluster Federation (CF) at cluster (groups of villages) level;
- Intensive support to link each SHG to *bank credit* such that each SHG member would be able to leverage a cumulative bank credit of 1.00 lakh over a period of 5 to 8 years.

C. Wage Employment Programmes

Wage Employment Programmes are an important component of the anti-poverty strategy, with multiple objectives. They not only provide employment opportunities during *lean agricultural seasons* but also in times of floods, droughts and other *natural calamities*. They *create rural infrastructure* which supports further economic activity.

Wage employment programmes were first started during the Sixth and Seventh Plan in the form of *National Rural Employment Programme (NREP)* and *Rural Landless Employment Guarantee Programmes (RLEGP)*. A special wage employment programme in the name of *Employment Assurance Scheme (EAS)* was launched in 1993 for the drought prone, desert, tribal and hill area blocks in the country. All this employment schemes aimed at improving the quality of life and eliminating poverty.

D. Jawahar Rozgar Yojana (JRY)

- The NREP and RLEGP were merged in April 1989 under the Jawahar Rozgar Yojana (JRY).
- The JRY was meant to generate *meaningful employment* opportunities for the unemployed and underemployed in rural areas through the creation of economic infrastructure and community and social assets.
- The JRY was revamped from 1 April 1999 as the Jawahar Gram Samridhi Yojana (JGSY).
- It became a programme for the *creation of rural economic infrastructure* with employment generation as a secondary objective.

E. Employment Assurance Scheme (EAS)

- The Employment Assurance Scheme (EAS) was launched as Centrally Sponsored Scheme on October 2, 1993 covering drought-prone areas, desert, tribal, and hill area blocks. It was later extended to all the blocks in 1997-98.
- The EAS was designed to provide employment in the form of *manual work in the lean agricultural season*.
- The works taken up under the programme were expected to lead to the creation of durable economic and *social infrastructure* and address the felt-needs of the people.
- The zila parishads and panchayat samitis were the implementing agencies.
- It aimed at creating community assets which is important for rural development.

F. Food for Work Programme (FWP)

The Food for Work programme was started in 2000-01 as a component of the EAS in eight notified drought-affected states of Chattisgarh, Gujarat, Himachal Pradesh, Madhya Pradesh, Orissa, Rajasthan, Maharashtra and Uttaranchal. The programme aimed at augmenting *food security through wage employment*. Food grains were supplied to states free of cost.

G. National Old Age Pension Scheme (NOAPS):

This pension is given by the Central Government. The job of implementation of this scheme in states and union territories is given to panchayats and municipalities. The states contribution may vary depending on the state. The amount of old age pension is ₹200 per month for applicants aged 60–79. For applicants aged above 80 years, the amount has been revised to ₹500 a month according to the 2011–2012 Budget. It is a successful venture.

H. Annapurna Scheme

This scheme was started by the government in 1999–2000 to provide food to senior citizens who cannot take care of themselves and are not under the National Old Age Pension Scheme (NOAPS), and who have no one to take care of them in their village. This scheme would provide 10 kg of free food grains a month for the eligible senior citizens. They mostly target groups of 'poorest of the poor' and 'indigent senior citizens'.

I. Sampoorna Gramin Rozgar Yojana (SGRY)

- This program was the result of merging of JRY, EAS and Food for Work Programme in September 2001, all of which aim at the creation of employment opportunities in rural areas.
- The basic aim of the scheme continues to be generation of wage employment, creation of durable economic infrastructure in rural areas and provision of food and nutrition security to the poor.

J. Mahatma Gandhi National Rural Employment Guarantee Act, 2005 (MGNREGA)

- It was launched in 2006. The mandate of the MGNREGA is to provide at least *100 days of guaranteed wage employment* in a financial year to every rural household whose adult members volunteer to do unskilled manual work.
- MGNREGA is bottom-up, people-centred, demand-driven, self-selecting and rights-based programme.
- The Act for the first time brought the role of the *state as provider of livelihood* within the reach of the beneficiaries themselves thereby helping in reducing the rural poverty.

Core Objectives of the MGNREGA are:

- (a) Providing not less than one hundred days of unskilled manual work as a *guaranteed employment* in a financial year to every household in rural areas as per demand, resulting in creation of productive assets of prescribed quality and durability;
- (b) Strengthening the *livelihood resource base* of the poor;
- (c) Proactively ensuring *social inclusion* and
- (d) Strengthening *Panchayati Raj Institutions*.

Plans and decisions regarding the nature and choice of works to be undertaken, are made in open assemblies of the Gram Sabha (GS) and ratified by the GP. Social audit is a new feature, which creates accountability of performance, especially towards immediate stakeholders. Thus MGNREGA also marks a break from the relief programmes of the past towards an integrated natural resource management and livelihoods generation perspective.

Critical Analysis of MGNREGA:

- **Job Creation:** The Scheme has acted as a safety net to reduce migration of the rural poor by providing them with work and wages. Over 3.4 billions person-days have been generated in the programme.
- **Benefits to Weaker Section:** According to the Rural Development Ministry, out of all the workers benefited under the scheme, the percentage of Scheduled Caste workers has consistently been about 20% and of Scheduled Tribe workers has been about 17%.
- **Women in Workforce:** Out of the total jobs created so far, the percentage of hours put in by women has increased steadily, to 56% much above the statutory minimum of 33%.
- **Labour & Income:** Ever since the launch of this scheme in 2006, it has changed the nature of the rural labour

market. It gave an opportunity to rural households to earn minimum income by getting job cards under this scheme. While the poor have used it to climb out of poverty, the not-so-poor used it as a measure to supplement their income by working during lean agriculture periods.

- **Curbs Migration:** The Act has broadened the occupational choices available to the agricultural workers within their locality, thereby impacting rural-urban migration.
- **Sustainable Asset Creation:** Sustainable assets have been created linked to conservation of natural resources and has helped in overall development of Gram Panchayats.
- **Financial Inclusion:** Payment of wages through bank accounts/ post office has led to large financial inclusion of the poor.
- **Inadequate Financing:** This year's allocation is the highest allocation for MGNREGA in any year since the passage of the law. However, the allocation amounts to 0.47% of the GDP continues to be much lower than the World Bank recommendations of 1.7% of GDP for the optimal functioning of the programme. Due to lack of funds, State Governments find it difficult to meet the demand for employment under MGNREGA.
- **Delay in Payment of wages:** Most states have failed to disburse wages within 15 days as mandated by MGNREGA. In addition, workers are not compensated for a delay in payment of wages. This has turned the scheme into a supply-based programme and subsequently, workers had begun to lose interest in working under it. Also there are issues with Aadhar Enabled Payment System.
- **Ineffective Role of PRI:** With very little autonomy, gram panchayats are not able to implement this act in an effective and efficient manner.
- **Large Number of Incomplete works:** There has been a delay in the completion of works under MGNREGA and inspection of projects has been irregular. Also, there is an issue of quality of work and asset creation under MGNREGA.
- **Fabrication of Job cards:** There are several issues related to the existence of fake job cards, the inclusion of fictitious names, missing entries and delays in making entries in job cards.

K. MGNREGA 2.0

The MGNREGA 2.0 stand for second generation reforms in the implementation of MGNREGA act. It is based on the recommendation of a task force under the chairmanship of Mihir Shah which was assigned the task to look into the lacunas and redraft rules and guidelines for more effective and efficient management of the program.

MGNREGA 2.0 is an attempt to overcome the weaknesses of the earlier programme and infuse it with a truly livelihood

generation character through a focus on the creation of durable assets and improvement in rural productivity.

The reforms was a need of the hour because the demands for works were dipping and there was widespread corruption in the implementation.

Under this new version 30 new works have been added which were earlier confined to 8 types of works. The programme now covers almost every source of rural livelihood in every agro-ecological zone, from poultry to fishery and from watershed development to sanitation works. The reforms are expected to increase job demand under the programme.

Way Forward

- Care needs to be taken on the issue that the funds allocated for the programme is reached to the beneficiaries and that the *leakage is minimised* to zero. This could be achieved by promoting digitization.
- More focus of the programme should be on the *development of quality* of assets along with the increase in quantity. In other words creation of productive assets shall be a priority of the scheme.
- Some *intelligent planning* and desired convergence of the programme with other similar programme shall be done in order to make it more effective.
- *State Governments* must ensure that public work gets started in every village. Workers turning up at the worksite should be provided work immediately, without much delay.
- In the times of *pandemic*, Local bodies must proactively reach out to returned and quarantined migrant workers and help those in need to get job cards. Adequate facilities such as soap, water, and masks for workers must be provided free of cost, at the worksite.
- The pandemic has demonstrated the importance of *decentralised governance*. Gram panchayats need to be provided with adequate resources, powers, and responsibilities to sanction works, provide work on demand, and authorise wage payments to ensure there are no delays in payments.
- MGNREGA should be *converged with other schemes* of the government. For example, Green India initiative, Swachh Bharat Abhiyan etc.
- *Social Auditing* creates accountability of performance, especially towards immediate stakeholders. Hence, there is a need to create awareness regarding government policies and measures in rural areas.

11.6 Strategy for Combating Poverty

According to NITI Aayog, the strategy for combating poverty must rest on two legs:

- Sustained rapid growth that is also employment intensive and
- Making anti-poverty programs effective.

11.6.1 Employment-intensive Sustained Rapid Growth

Sustained rapid growth works through two channels:

- **First**, by creating jobs that pay steadily rising real wages. It directly dents poverty.
- **Second**, it will lead to growth in government revenues which in turn allow the expansion of social expenditures at faster pace.
- **Development of Agriculture** shall be the prime focus in rural areas as majority of the rural poor are dependent on agriculture. These include measures like raising productivity in agriculture, giving good remuneration prices to farmers, promoting second green revolution in rainfed areas in general and Eastern India in particular, helping small and marginal farmers by reforming tenancy laws and bringing quick relief to farmers in times of natural disasters.
- **The growth in the industrial and service** sectors can reap more benefit for the poor provided more employment is created in these sectors. For this India needs to accelerate growth in organised labour intensive sector such as footwear, food processing, electronics and electrical appliances etc.
- Another focus area to eliminate poverty can be the creation of new *Coastal Economic Zones* and promotion of aquaculture with business friendly ecosystems which can serve as magnets for the export oriented large scale firms involved in employment-intensive activities. This can help generate more jobs for the poor living in the coastal zones.

11.6.2 Increasing Effectiveness of Anti-Poverty Programs

- Making anti-poverty programs such as the *Public Distribution System (PDS)*, *Midday Meal Scheme*, MGNREGA and *Housing for All* more effective represents the second leg of the strategy to eliminate abject poverty.
- For example, poor households must be offered the option between cash and in-kind transfers under the PDS.
- Schemes like MGNREGA can impart *skills* to make it more effective which would in turn also make it easier for the workers to exit the programs and earn better at other places with the skills that he or she acquired through this program.
- The Trinity of *Jan Dhan Yojana, Aadhar and Mobile (JAM)* can play a vital role by widening the reach of government to the vulnerable sections. Thus the digital mode and the direct benefit link can revolutionize the anti-poverty programmes by replacing the current cumbersome and leaky distribution of benefits under various schemes by the direct benefit transfer.
- Inefficient and myriad Schemes should be replaced by other efficient schemes. The *identification of beneficiaries* of those schemes can be done by using the database

created by Aadhar linked accounts and by data available through **SECC** (socio-economic caste census) and other statistics. This will help in assessing the total benefit accruing to each household.

11.7 Inclusive Growth

It means economic growth that creates employment opportunities and helps in reducing poverty. It includes providing equality of opportunity and empowering people through education and skill development.

11.7.1 Objective

- Inclusive Growth shall lead to significant improvement in **health outcomes**, universal access for children to school, increased access to higher **education** and improved standards of education, including **skill development**.
- Inclusive growth shall provide better opportunities for both wage employment and livelihood, and improving in provision of basic amenities like water, electricity, roads, sanitation and housing, thereby resulting in lower incidences of poverty.

11.7.2 Elements of Inclusive Growth



A. Skill Development

- Harnessing the demographic dividend will depend upon the employability of the working age population, their health, education, vocational training and skills. Skill development plays a key role here.
- India is facing a dual challenge in skill development: First, there is a paucity of highly trained workforce. Second, there is non-employment of conventionally trained youths

B. Financial Inclusion

- Financial Inclusion is the process of ensuring access to financial services to vulnerable groups at affordable costs.
- Financial inclusion is necessary for inclusive growth as it leads to the culture of saving, which initiates a virtuous cycle of economic development.

C. Technological Advancement

- The world is moving towards an era of Industrial Revolution 4.0. These technological advancements have capabilities to both decrease or increase the inequality depending on the way these are being used.
- Several initiatives have been taken by the government, eg. Digital India Mission, so that a digitally literate population can leverage technology for endless possibilities.
- Technology can help to combat other challenges too, eg:
 - ♦ **Agriculture:** Modern technology can help in making an agro-value chain from farmer to consumer more efficient and competitive.

- ♦ **Manufacturing:** Technology can resolve the problems of finance, procuring raw materials, land, and linkages with the user market. GST was made possible only with the help of sound technology.
- ♦ **Education:** Innovative digital technologies can create new forms of adaptive and peer learning, increasing access to trainers and mentors, providing useful data in real-time.
- ♦ **Health:** Technologies could transform the delivery of public health services – extend care through remote health services
- ♦ **Governance:** Technology can cut down delays, corruption, and inefficiency in the delivery of a public service.
- ♦ Introduction of Digital Public Goods can promote inclusive growth.

D. Economic Growth

- India is among the fastest-growing major economies in the world.
- However, the target of becoming a \$ 5 trillion economy by 2024-25 can allow India to reduce inequality, increase social expenditure and provide employment to all.

E. Social Development

- It means the empowerment of all marginalised sections of the population like SC/ST/OBC/Minorities, women and transgenders.
- Empowerment can be done by improving institutions of the social structure i.e. hospitals especially primary care in the rural areas, schools, universities, etc.
- Investment in social structures will not only boost growth (by fiscal stimulus) but will also create a healthy and capable generation to handle future work.

11.7.3 Need for Inclusive Growth In India

- There is a severe lack of accessibility to **core public services**.
- **The public spending** across core services stay at a dismal percentage of GDP (1 – 2%). Though institutions have been established but the quality is not upto the mark.
- **Malnutrition and undernourishment** has been prevalent in society among marginalised section especially among adolescent girls.
- **Economic and Social inequalities** exist at intra-state level and inter-state level. Poor growth rates and poor public services in lagging states make sure that disparity increases. The data is reflected in the Human Development Index and Per Capita Income across different states.
- **Low agriculture growth**, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. are the problems for the nation
- **Reducing poverty and inequality** and increasing economic growth are the main aim of the country through inclusive growth.

- **Growth has been uneven** across sectors and locations. For instance, agriculture has been lagging behind and in countries such as India and China, some regions have advanced faster than others. Policies are also relatively ignored the agriculture sector.
- **Due to trade competitiveness**, foreign direct investment and new technologies has demanded skilled labour. In some cases, labour laws also often discriminate against formal employment and encourage ‘casualization’ of labour.
- **Unsustainable economic growth.**
- Mission of doubling farmers income

11.7.4 Challenges in Achieving Inclusive Growth



A. Poverty

- 373 million Indians continue to experience acute deprivations. Additionally, 8.8% of the population lives in severe multidimensional poverty and 14.96% of the population are vulnerable to multidimensional poverty.

B. Unemployment

- The quality and quantity of employment in India are low due to illiteracy and due to over-dependence on agriculture.
- The quality of employment is a problem as more than 80% of people work in the informal sector without any social security.
- Low job growth is due to the following factors:
 - ♦ Low investment.
 - ♦ Low capital utilization in industry.
 - ♦ Low agriculture growth.

C. Agriculture Backwardness

- Around 45.5% of people in India have agriculture-related employment but its contribution to the Indian GDP is only 19% which lead to widespread poverty
- Issues in agriculture are as follows:
 - ♦ Declining per capita land availability.
 - ♦ A slow reduction in the share of employment.
 - ♦ Low labour productivity.
 - ♦ Decline in agriculture yield due to climate change, land degradation and unavailability of water.
 - ♦ Disparities in growth across regions and crops.

D. Issues with Social Development

- Social development is one of the key concerns for inclusive growth. But it is facing some problems such as:
 - ♦ Significant regional, social and gender disparities.
 - ♦ Low level and slow growth in public expenditure particularly in health and education.

- ♦ The poor quality delivery system.
- ♦ Social indicators are much lower for OBC, SC, ST, and Muslims.

E. Regional Disparities

- Regional disparities are a major concern for India. Factors like the caste system, gap between rich and poor etc. contribute to the regional disparities which create a system where some specific groups hold more privileges over others.
- Some of the regional disparities problems are as follow: In terms of literacy rate, Kerala is the most literate state with 93.1% literacy, on the other hand, literacy rate of Bihar is only 63.82%.
- In terms of per capita income, Goa’s per capita income is ₹4,67,998 in 2018 while per capita income of Bihar is just one-tenth of that ie ₹43,822.

11.7.5 Steps Taken by Government

The Government has launched several initiatives to ensure the inclusiveness by bringing excluded sections of the society into the mainstream and enabling them to reap the benefits of faster economic growth.

- One of the major steps in the direction of bringing about financial inclusion is through the *Pradhan Mantri Jan Dhan Yojana (PMJDY)*.
- Other schemes like *MUDRA Bank (Micro Units Development and Refinance Agency)*, *Self Employment and Talent Utilisation (SETU)*, *Skill India Mission* are some of the strong measures expected to create skilled workforce and provide livelihood opportunities.
- Schemes like *Pradhan Mantri Jeevan Jyoti Bima Yojana*, *Pradhan Mantri Jeevan Suraksha Yojana* and *Atal Pension Yojana* have been introduced with the intention of creating *sustainable security net* in the country.
- The *standard of living* of the rural people has been raised by schemes like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).
- The neglected *agrarian community* has also been included and benefitted from schemes like Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Kisan Credit Card and National Agriculture Market (NAM).

Financial Inclusion	<ul style="list-style-type: none"> ♦ Pradhan Mantri Jan Dhan Yojana ♦ Pradhan Mantri Jeevan Jyoti Beema Yojana ♦ Pradhan Mantri Suraksha Beema Yojana ♦ Atal Pension Yojana ♦ Pradhan Mantri Mudra Yojana ♦ Jan Dhan, Aadhaar and Mobile (JAM Trinity)
Employment and Inclusive Growth	<ul style="list-style-type: none"> ♦ MGNREGA ♦ Skill Training for Employment Promotion amongst Urban Poor (STEP-UP) ♦ Swaran Jayanti Shahari Rozgar Yojana
Agriculture and Inclusive Growth	<ul style="list-style-type: none"> ♦ Pradhan Mantri Krishi Sinchayee Yojana ♦ National Agriculture Market ♦ National Food Security Act

Technology and Inclusive Growth	<ul style="list-style-type: none"> ◆ Digital India Program
Skill Development and Inclusive Growth	<ul style="list-style-type: none"> ◆ National Skill Development Mission ◆ Pradhan Mantri Kaushal Vikas Yojana (PMKVY) ◆ Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) ◆ Pradhan Mantri Vidya Lakshmi Karyakram ◆ Self-Employment and Talent Utilisation (SETU) Mechanism. ◆ Atal Innovation Mission (AIM)

11.8 Financial Inclusion

11.8.1 Meaning

- Financial inclusion is the process of ensuring access to appropriate *financial products* and *services* needed by vulnerable groups such as weaker sections and low income groups at an *affordable cost* in a fair and *transparent manner*.
- Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost.
- The objective of financial inclusion is to ensure *universal access* to a wide range of financial services like savings and payment account, credit insurance and pensions.
- Financial inclusion also aims to provide services for *business opportunities*, *education*, *savings* for retirement and insurance against *risks* including emergency loans.

11.8.2 Past Efforts

- In 1904, the *Cooperative Credit Societies Act* was passed. It provided a legal basis for cooperative credit societies.
- Post Independence, steps like *nationalisation of banks* in 1955 and 1980, establishment of *NABARD* and introduction of priority sector lending were some of the measures to usher financial inclusion.
- Other Measures for financial inclusion included expanding banking service to provide a suite of services related to deposit, credit, *micro insurance* and remittances to the poor.
- Banks were also advised to initiate Information and Communication Technology based *Business Correspondent Model (BC Model)* to provide low cost banking services at doorstep in remote villages, Roadmap to cover all the villages as early as possible, opening of at least 25 per cent of new branches in unbanked rural areas etc.

11.8.3 Importance

- Access to financial services opens doors for families, allowing them to smooth out consumption and invest in their futures through education and health.
- Access to credit enables businesses to expand, creating jobs and reducing inequality. Financial inclusion is the bridge between economic opportunity and outcome.

- Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population.
- Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in calamities.
- Financial inclusion also mitigates the exploitation of vulnerable sections by the money lenders by facilitating easy access to formal credit.

11.8.4 Challenges

- **Fraud Due to Illiteracy:** India is a country where large number of people are illiterate. Thus it becomes easy to get their bank account details by fraudsters. It will lead to breaking down of trust on banks.
- **Non Operational Accounts:** Another challenge is to make sure that the account so opened under schemes like Jan Dhan Yojana, are operated periodically and that some balance is maintained in the account.
- **Number of Regulatory Authorities:** At present, there are a number of regulatory authorities that have a role to play in financial inclusion – Reserve Bank, National Bank for Agriculture and Rural Development (NABARD), Securities and Exchange Board of India, Small Industries and Development Bank of India, and MUDRA bank. The responsibility of overseeing financial inclusion should be dedicated to a single regulator.
- **Digital Divide:** The most common barriers to the adoption of digital technology which may promote financial inclusion:
 - ◆ Non-availability of suitable financial products.
 - ◆ Lack of skills among the stakeholders to use digital services.
 - ◆ Infrastructural issues.
 - ◆ Low-income consumers who are not able to afford the technology required to access digital services.
- **Informal and Cash-Dominated Economy:** India is the heavily dominated cash economy, this poses a challenge for digital payment adoption. Also, according to the International Labour Organization (ILO), about 81% of the employed persons in India work in the informal sector. The combination of a huge informal sector along with a high dependence on cash mode of transaction poses an impediment to digital financial inclusion.
- **Gender Gap in Financial Inclusion:** According to the Global Findex database, 83% of males above 15 years of age in India held accounts at a financial institution compared to 77% females. This is attributed to socio-economic factors, including the availability of mobile handset and internet data facility being higher among men than women.
- **Lack of Credit Penetration:** One of the main constraints in providing credit to low-income households and

informal businesses is the lack of information available with formal creditors to determine their credit worthiness. This results in a high cost of credit.

11.8.5 Initiatives on Financial Inclusion

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include:

- Nationalization of banks,
- Building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks,
- Introduction of mandated priority sector lending targets,
- Lead bank scheme,
- Formation of self-help groups
- Permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services
- Zero balance BSBD accounts, etc.

The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

11.8.6 Recent Financial Inclusion initiative by RBI

RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country.

- **New Banking Entities permitted in the Financial Inclusion Space:** RBI has granted in-principle approval to some entities to set up differentiated banks namely “*Small Finance Banks*” (SFBs) and “*Payments Banks*” to further the cause of financial inclusion in the country.
- **Role of payment system in promoting financial inclusion:** Encouraging use of Mobile Banking, pre-paid instruments in the form of digital wallets and mobile wallets, operationalisation of the *Aadhaar Bridge Payment System (ABPS)* and *Aadhaar-Enabled Payment system (AEPS)* etc.
- **Direct Benefit Transfer and Aadhaar Seeding of Accounts:** An important driver for enhancing the demand side of financial inclusion is Direct Benefit Transfer (DBT). It has the potential to be game changer. If entitlements under various state sponsored schemes starts directly flowing into the bank accounts of individuals under DBT mode, it can act as a catalyst to encourage saving habit leading to build up of *investment and seed capital* for availing productive credit.

11.8.7 Financial Inclusion Schemes and Programmes

A. Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan-Dhan Yojana (PMJDY) is National Mission for Financial Inclusion to ensure access to financial services,

namely, Banking/Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner and by using technology for the benefit of excluded section.

Account can be opened in any bank branch or Business Correspondent (Bank Mitra) outlet. Accounts opened under PMJDY are being opened with Zero balance.

Six Pillars of the Scheme

- **Universal Access to Banking Services (Branch and Banking Correspondents):** Accounts opened are online accounts in the core banking system of banks. Focus has shifted from ‘Every Household’ to Every Unbanked Adult’.
- **Basic Savings Bank Accounts with OverDraft (OD) Facility of ₹10,000/- to every household.**
- **Financial Literacy Program:** Promoting savings, use of ATMs, using basic mobile phones for banking, etc. Interoperability through RuPay debit card or Aadhaar enabled Payment System (AePS).
- **Creation of Credit Guarantee Fund:** To provide banks some guarantee against defaults.
- **Insurance:** Free accidental insurance cover on RuPay cards increased from ₹1 lakh to ₹2 lakh for PMJDY accounts opened after August 2018.
- **Pension Scheme** for the Unorganized sector.

Achievements

- **Accounts:** The number of accounts rose to 50.04 crore in August 2023 from 17.9 crore in August 2015. Of this, 56% Jan Dhan account holders are women and 67% holders are in rural and semi-urban areas.
- **Deposits:** The deposits have shot up to ₹2.03 lakh crore from ₹22,901 crore during 2015-2023.
- **Operative Accounts:** As per extant Reserve Bank of India guidelines, a PMJDY account is treated as inoperative if there are no customer induced transactions in the account for over a period of two years. In August 2021, out of total 43.04 crore PMJDY accounts, 36.86 crore (85.6%) were operative. Continuous increase in percentage of operative accounts is an indication that more and more of these accounts are being used by customers on a regular basis.
- **RuPay Usage:** Number of RuPay cards & their usage has also increased over time.
- **Jan Dhan Darshak App:** This app is being used for identifying villages which are not served by banking touchpoints within 5 km. The efforts have resulted in a significant decrease in the number of such villages.
- **Pradhan Mantri Garib Kalyan Package (PMGKP) for PMJDY Women:** Under PMGKP, a total of ₹30,945 crore have been credited in accounts of women PMJDY account holders during Covid lockdown.
- **Smooth DBT Transactions:** About 5 crore PMJDY account holders receive Direct Benefit Transfer (DBT) from the Government under various schemes.

Impact

- **Increased Financial Inclusion:** PMJDY has been the foundation stone for people-centric economic initiatives. Whether it is DBT, Covid-19 financial assistance, PM-KISAN, increased wages under MGNREGA, life and health insurance cover, the first step of all these initiatives is to provide every adult with a bank account, which PMJDY has nearly completed.
- **Formalisation of Financial System:** It provides an avenue to the poor for bringing their savings into the formal financial system, an avenue to remit money to their families in villages besides taking them out of the clutches of the usurious money lenders.
- **Prevention of Leakage:** DBTs via PM Jan Dhan accounts have ensured every rupee reaches its intended beneficiary and prevents systemic leakage.

Challenges

- **Connectivity:** Lack of physical and digital connectivity is posing a major hurdle in achieving financial inclusion for rural India.
- **Technological Issue:** The technological issues affecting banks from poor connectivity, networking and bandwidth problems to managing costs of maintaining infrastructure especially in rural areas.
- **Procedure not Clear:** Most of the people are aware but still so many are not turned around as they are not understanding the proper procedure of opening an account and required documents at a time.

Way Forward

Success of the **PMJDY** scheme depends on the effective regulatory system as the stakeholders have to build a sustainable ecosystem to keep the accounts active and successful implementation of the programme. The challenge is the conversion of the non operative accounts with zero balance into operative and for this it's important to focus on financial literacy programme. Also, promotion of digital payments including RuPay debit card usage amongst PMJDY account holders through creation of acceptance infrastructure across India will expand the reach of PMJDY.

B. Deendayal Antyodaya Yojana-National Rural Livelihood Mission

It is a Centrally Sponsored Programme, launched by the Ministry of Rural Development in June 2011.

Aided in part through investment support by the World Bank, the Mission aims at creating efficient and effective institutional platforms of the rural poor, enabling them to increase household income through sustainable livelihood enhancements and improved access to financial services.

Aim: To eliminate rural poverty through the promotion of multiple livelihoods and improved access to financial services for the rural poor households across the country.

To reach out to all rural poor households and impact their livelihoods.

Functioning: It involves working with community institutions through community professionals in the spirit of self-help which is a unique proposition of DAY-NRLM. It impacts the livelihoods through universal social mobilization by inter alia organising one-woman member from each rural poor household into Self Help Groups (SHGs), their training and capacity building, facilitating their micro-livelihoods plans, and enabling them to implement their livelihoods plans through accessing financial resources from their own institutions and the banks. NRLM set out with an agenda to cover 7 Crore rural poor households, across 600 districts, 6000 blocks, 2.5 lakh Gram Panchayats and 6 lakh villages in the country through self-managed Self Help Groups (SHGs) and federated institutions and support them for livelihoods collectives in a period of 8-10 years.

Implementation: It is implemented in a Mission mode by special purpose vehicles (autonomous state societies) with dedicated implementation support units at the national, state, district and block levels, using professional human resources in order to provide continuous and long-term handholding support to each rural poor family.

Support Provided: There were 63 lakh SHGs comprising seven crore women members in the country which had been granted ₹3 lakh crore in loans and the non-performing assets (NPA) amounted to only 2.3%. In addition, the poor would be facilitated to achieve increased access to rights, entitlements and public services, diversified risk and better social indicators of empowerment. DAY-NRLM believes in harnessing the innate capabilities of the poor and complements them with capacities (information, knowledge, skills, tools, finance and collectivization) to participate in the growing economy of the country.

Recent Developments: A new sub-scheme under DAY-NRLM named as "Aajeevika Grameen Express Yojana (AGEY)", has been launched. The main objectives of AGEY are to provide an alternative source of livelihoods to members of Self Help Groups (SHGs) under DAY-NRLM by facilitating them to operate public transport services in backward rural areas. This will provide safe, affordable and community monitored rural transport services like e-rickshaws, 3 and 4 wheeler motorised transport vehicles to connect remote villages with key services and amenities including access to markets, education and health for the overall economic development of the area.

11.9 Microfinance

Microfinance is the provision of financial services to low-income clients or **solidarity lending** groups including consumers and the self-employed, who traditionally lack access to banking and related services.

Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like **credit, savings, insurance, remittance** and also non-financial services like training, counseling etc.

The reason for existence of separate institutions i.e. MFIs for offering microfinance are as follows:

- **High Transaction Cost:** Generally micro credits fall below the break-even point of providing loans by banks.

- **Absence of Collaterals:** The poor usually are not in a state to offer collaterals to secure the credit.
- **Short Duration Loans:** Loans are generally taken for very short duration periods.

A. Microfinance Institutions

MFI is an organization that offers financial services to low income populations. These services include microloans, microsavings and microinsurance.

- It provides easy credit and offers small loans to customers, without any collateral.
- It makes more money available to the poor sections of the economy, leading to increased income and employment of poor households.
- Families benefiting from microloans are more likely to provide better and continued education for their children.

Non-Banking Financial Companies (NBFCs), Co-operative societies, Section-25 companies, Societies and Trusts, all such institutions operating in the microfinance sector constitute MFIs and together they account for about 42 percent of the microfinance sector in terms of loan portfolio. The MFI channel is dominated by NBFCs which cover more than 80 percent of the total loan portfolio through the MFI channel.



B. Importance

- It promotes socio-economic development at the *grassroot* level through community based approach.
- It provides *livelihood* to the vulnerable and disadvantaged population.
- It promotes activities which have *community participation* and sharing of responsibilities.
- It helps in mainstreaming the *disabled* and empowerment of women of backward areas.
- It develops and strengthens *people's group* like self help group and facilitates sustainable development through them.

C. Major Business Models

- **Joint Liability Group:** This is usually an informal group that consists of 4-10 individuals who seek loans against

mutual guarantee. The loans are usually taken for agricultural purposes or associated activities.

- **Self Help Group:** It is a group of individuals with similar socio-economic backgrounds. These small entrepreneurs come together for a short duration and create a common fund for their business needs. These groups are classified as non-profit organisations. The National Bank for Agriculture and Rural Development (NABARD) SHG linkage programme is noteworthy in this regard, as several Self Help Groups are able to borrow money from banks if they are able to present a track record of diligent repayments.
- **Grameen Model Bank:** It was the brainchild of Nobel Laureate Prof. Muhammad Yunus in Bangladesh in the 1970s. It has inspired the creation of Regional Rural Banks (RRBs) in India. The primary motive of this system is the end-to-end development of the rural economy.
- **Rural Cooperatives:** They were established in India at the time of Indian independence. However, this system had complex monitoring structures and was beneficial only to the creditworthy borrowers in rural India. Hence, this system did not find the success that it sought initially.

D. Challenges

- **Legal Structure and Regulations:** The presence of institutions with a variety of legal forms makes it difficult for the regulation of all such institutions by a single regulatory body in the current Indian legal structure. Though NBFCs, which cover the major part of the outstanding loan portfolio by the microfinance channel, are regulated by Reserve Bank of India, other MFIs like societies, trusts, Section-25 companies and cooperative societies fall outside the purview of RBI's regulation.
- **Financial Illiteracy:** One of the major hindrances in the growth of the microfinance sector is the financial illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients.
- **Inability to Generate Sufficient Funds:** The problem of inadequate funds is bigger for small and nascent MFIs as they find it very difficult to get bank loans because of their small portfolio size and so they have to look for other costlier sources of fund.
- **Dropout and Migration of Members:** Most MFIs lend on the basis of the past record of the group. In absence of a decent past record, members are deprived of getting bigger loan amounts and additional services.
- **Transparent Pricing:** Non-transparent pricing by MFIs confines the bargaining power of the borrowers and their ability to compare different loan products, because they don't know the actual price. In absence of the proper understanding of the pricing, clients end up borrowing more than their ability to payback which results in over-indebtedness of the borrowers.
- **Low Penetration of MFIs:** Because of the initial cost involved in serving a new location, MFIs are not willing to go to remote locations. This is the reason most of the MFIs

have their branches in urban and semi-urban areas only resulting in a very low rural penetration of microfinance.

- **Multiple Lending and Over-Debtedness:** In order to eat away each others' market share, MFIs are ending up giving multiple loans to same borrowers which in some cases is leading to over-indebtedness of the borrower. MFIs are getting affected because borrowers are failing to make payments and hence their recovery rates are falling, while over-indebtedness is making the borrower go to depression and in some cases forcing them to commit suicide.

E. Way Forward

- The RBI has suggested that the non-corporate MFIs should be regulated by individual State Governments.
- Microfinance programmes and group formation should be handled by trained personnel in a professional manner.
- The microfinance programs should not be restricted only for meeting the financial needs of women but also include entitlements and status of women.
- For control of interest rates of microcredit institutions, regulatory framework should be established, based on transparency and avoiding hidden cost.
- In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed.
- A common practice for charging interest should be followed by all MFIs so that it makes the sector more

competitive and the beneficiary gets the freedom to compare different financial products before buying.

11.10 Universal Basic Income

11.10.1 Meaning

A universal basic income (UBI) is unconditional and universal. It requires that every person should have a right to a basic income to cover their needs, just by virtue of being citizens.

UBI has five components:

- **Universality:** It is universal in nature.
- **Periodic:** Payments at periodic regular intervals (not one-off grants).
- **Payments to individuals.**
- **Payments in cash** (not food vouchers or service coupons).
- **Unconditionality:** There are no preconditions attached with the cash transferred to the beneficiary.

The Economic Survey 2016-17 advocated the concept of Universal Basic Income (UBI) as an alternative to the various social welfare schemes in an effort to reduce poverty. The Economic Survey estimated that providing a modest basic income to all but the richest quartile of Indians could shrink national poverty from 22 percent (Tendulkar Committee) to 0.5 percent, while promoting social justice and empowering the poor.

Arguments in Favour and against UBI	
Favour	Against
<ul style="list-style-type: none"> ♦ Poverty and vulnerability reduction ♦ Choice: A UBI treats beneficiaries as agents and entrusts citizens with the responsibility of using welfare spending as they see best; this may not be the case with in-kind transfers. ♦ Better Targeting of Poor: As all individuals are targeted, exclusion error (poor being left out) is zero though inclusion error (rich gaining access to the scheme) is 60 percent. ♦ Insurance Against Shocks: This income floor will provide a safety net against health, income and other shocks. ♦ Improvement in Financial Inclusion: Payment – transfers will encourage greater usage of bank accounts, leading to higher profits for banking correspondents (BC) and an endogenous improvement in financial inclusion. ♦ Credit: increased income will release the constraints on access to credit for those with low income levels. ♦ Administrative Efficiency: A UBI in place of a plethora of separate government schemes will reduce the administrative burden on the state. 	<ul style="list-style-type: none"> ♦ Moral Hazard (Reduction in Labour Supply): A minimum guaranteed income might make people lazy and opt out of the labour market. ♦ Conspicuous spending: Households, especially male members, may spend this additional income on wasteful activities. ♦ Gender disparity induced by cash: Gender norms may regulate the sharing of UBI within a household – men are likely to exercise control over spending of the UBI. This may not always be the case with other in-kind transfers. ♦ Implementation: Given the current status of financial access among the poor, a UBI may put too much stress on the banking system. ♦ Fiscal Cost Given Political Economy of Exit: Once introduced, it may become difficult for the government to wind up a UBI in case of failure. ♦ Exposure to Market Risks (Cash vs. Food): Unlike food subsidies that are not subject to fluctuating market prices, a cash transfer's purchasing power may severely be curtailed by market fluctuations.

11.10.2 Way Ahead

Exploring the principles and prerequisites for successful implementation of UBI, the Economic Survey 2016 pointed out that the two prerequisites for a successful UBI are:

- (a) **Functional JAM (Jan Dhan, Aadhar and Mobile) system** as it ensures that the cash transfer goes directly into the account of a beneficiary.

- (b) Centre-State negotiations on cost sharing for the programme.

With almost 90% of India's workforce in the informal sector without minimum wages or social security, micro-level circumstances in India are worse than anywhere else. To deal with the economic inequality, unemployment and

poverty created by the Covid-19 pandemic and consequent lockdown, many advocate Universal Basic Income (UBI) programme to be a solution.

UBI envisages an uncompromised social safety net that seeks to assure a dignified life for everyone, a concept that is expected to gain traction in a global economy buffeted by uncertainties on account of globalization, technological change, and automation.

11.11 Low Skill Manufacturing

Meeting the challenge of jobs may require paying attention to labor-intensive sectors such as apparel and leather sectors. These provide opportunities for creating jobs (especially for women) and opportunities for exports and growth, as there is a worldwide demand for these goods. It will help India achieve the dual purpose of job creation and economic growth. Take-off in economic growth in East Asia has been associated with rapid expansion in clothing and footwear exports. Around 7-10% of GDP growth rate was associated with 20-50% growth in apparel and 25% in footwear industry exports. Rising labor costs in China affords India an opportunity to fill up the vacuum and provide a better alternative to investors to shift their manufacturing basis away from China which is already reeling under the scepticism or account of origin of pandemic and excessive concentration of global supply chain.

11.11.1 Challenges

- **Low competitiveness:** Bangladesh and Vietnam in case of apparels, and Vietnam and Indonesia in case of leather and footwear, are fast taking over the space ceded by China.
- **Qualitative and Quantitative trade barrier:** To gain competitiveness in these sectors, India requires easing restrictions on labor regulations, negotiating FTAs with major partners such as the EU and UK, and ensuring that the GST rationalizes current tax policy that can discriminate against dynamic sectors.
- **Scarce raw materials:** Unavailability of abundant cattle for slaughter hampers leather industry.
- **Problem of logistics:** The costs and time involved in getting goods from factory to destination are greater than those for other countries. Logistics constitute 14% of India's GDP in developed economies this number is below 7% – 8%.
- **Lack of skilled personnel:** Only 2% of work force engaged in these sectors is formally trained.
- **Rigid Labour Laws:** These increase compliance burden for MSME's

11.11.2 Steps Taken by Government

- Labour intensive sectors have been encouraged to increase production through the production linked incentive scheme.
- The government is focussing on improving and formalizing employment through PM Rojgar Yojana.
- Exporters have been provided relief to offset the impact of taxes other than those subsumed under GST, embedded in exports through RoDTEP scheme (Remission of Duties and Taxes on Exported Products). This scheme replaced the earlier Merchandise export from India Scheme (MEIS) which was not compliant with World Trade Organisation.
- Skilling and entrepreneurial capital of the workforce is ensured through skill India Mission, Startup India, Standup India, Mudra Yojana and Pradhan Mantri Kaushal Vikas Yojana.
- During the pandemic, credit guarantees work provided to banks so as to induced liquidity in marginal and small labour intensive enterprises as a part of Atmanirbhar Bharat Package.
- Thus, India's comparative advantage can be utilized well to make inroads into these sectors, and reclaim low skill manufacturing to generate jobs and have wider, economy-wide benefits.

■■■■



TRY THIS MAINS PREVIOUS YEAR QUESTIONS

1. Distinguish between the Human Development Index (HDI) and the Inequality-adjusted Human Development Index (IHDI) with special reference to India. Why is the IHDI considered a better indicator of inclusive growth? (Write in 150 words) **(2025)**
2. Examine the pattern and trend of public expenditure on social services in the post-reforms period in India. To what extent has this been in consonance with achieving the objective of inclusive growth? (Write in 150 words) **(2024)**
3. Explain intragenerational and intergenerational issues of equity from the perspective of inclusive growth and sustainable development. (Write in 150 words) **(2020)**